

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-14 ISO-00 SP-02 ICA-20 AID-05
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
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R 181420Z JUL 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 6593
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

UNCLAS BERN 3431

USMTN ALSO FOR MISSION
USOECD ALSO FOR EMBASSY
PASS TREAS FRB
EO 11652: NA
TAGS: EFIN, SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK WEEK JULY 10-14
1. SUMMARY: DOLLAR FELL SHARPLY BUT PARTIALLY
RECOVERED TO SF 1.81. GOLD UP TO 185.75. CREDIT
SUISSE FORECASTS 1978 GOLD SUPPLY INCREASE. UN-
EMPLOYMENT DECLINED. SMALLER TRADE DEFICIT. END
SUMMARY.
2. FOREX GOLD:
A) SHARP DROP OF DOLLAR MONDAY TO LOW SF 1.7860
REPORTEDLY CAUSED BY GENERAL SKEPTICISM ABOUT
PROPOSED NEW EUROPEAN MONETARY SYSTEM AND SIZE
INCREASE IN US WHOLESALE PRICE INDEX. DEALERS SAY
SNB INTERVENTION BROUGHT RATE BACK ABOVE SF 1.80
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TUES. TRADING SLACKENED LATER IN WEEK WITH LITTLE
INTEREST IN MARKET AHEAD OF BONN SUMMIT. DISAPPOINT-
MENT AT PRESIDENT'S STATEMENT ON FUTURE FOREX INTER-
VENTION CONTRIBUTED TO THIN AND UNCERTAIN TRADING
CONDITIONS.
B) UNION BANK OF SWITZERLAND BULLETIN OF OPINION
PARTICIPANTS IN BONN SUMMIT MEETING PUTTING DAMPER

ON HIGH HOPES , PROBABLY TO PREVENT PSYCHOLOGICAL CONSEQUENCES ON FOREX MARKETS SHOULD TALKS FAIL. REMARKS BY SECY BLUMENTHAL ARE CITED.

C) GOLD REACHED HIGH 186.50 THURS AND CLOSED WEEK \$2 HIGHER THAN PREVIOUS WEEK CLOSE. TRADING QUIET. RATES FOLLOW:

7/10 (OPEN) 7/14 (CLOSE)

SPOT DOLLAR 1.8120 1.815

FORWARD DISCOUNTS

(PCT PER ANNUM)

1 MONTH 7.33 7.27

2 MONTHS 7.07 7.14

3 MONTHS 7.04 6.99

6 MONTHS 7.06 6.99

12 MONTHS 6.76 6.59

SF/DM 88.34 88.05

GOLD 185.75 185.75

3. CAPITAL MONEY MARKETS:

A) ZURICH STOCK MARKET ENJOYED GOOD WEEK, DESPITE ABSENCE OF GOOD ECONOMIC NEWS. SWISSAIR BEARER SHARES HEAVILY TRADED MORE THAN RECOVERED FROM DECLINE BROUGHT ON BY IATA MEETING AND CLOSED UP 4.2 PCT ON SPECULATION INCREASE IN CAPITALIZATION WOULD BE AUTHORIZED. SKA INDEX CLOSED UP 1.1 PCT AT 251.4. AVERAGE YIELD CONFEDERATION BONDS SLIPPED FURTHER TO 3.37 PCT.

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B) SNB UNWINDING OF END-JUNE DOLLAR/FRANC SWAPS WITH BANKS PROVED MORE DIFFICULT THAN EXPECTED (BANK NOTE CIRCULATION NOT FALLING MUCH BECAUSE OF HOLIDAY SEASON) AND THIS PROMPTED SNB TO CONCLUDE MORE SWAPS ON JULY 5. STATEMENT AS OF JULY 7 SHOWS FOREX HOLDINGS OF 19.340 BILLION FRANCS, DOWN FROM SF 21.100 BILLION JUNE 30 AND SF 19.950 JUNE 23.

4. GOLD SUPPLY: CREDIT SUISSE MONTHLY BULLETIN FORECASTS 4.5 PCT INCREASE IN GOLD SUPPLY IN 1978 TO 1680 TONS (1607 IN 1977). WESTERN MINING OUTPUT SHOULD REACH 1,000 TONS; SOUTH AFRICAN PRODUCTION SHOULD INCREASE 3 PCT TO 720 TONS. SALES BY COMMUNIST COUNTRIES EXPECTED TO RISE BY 3 PCT TO 410 TONS AS RESULT SOVIET INCREASED PRODUCTION AND CONTINUING FOREX REQUIREMENTS. ESTIMATED NET SALES BY IMF AND NATIONAL MONETARY AUTHORITIES ALMOST 270 TONS; SOME OF THIS EXPECTED TO COME FROM PORTUGAL AND INDIA. ON DEMAND SIDE, MORE GOLD COINS WILL BE MINTED. TOTAL INDUSTRIAL DEMAND 1430 TONS (\$180/OUNCE). INVESTORS AND HOARDERS WOULD HAVE TO BUY 250 TONS , 14 PCT MORE THAN IN

1977. CREDIT SUISSE THINKS INCREASE IS HIGH BUT ATTAINABLE. SHOULD FOREX MARKETS STABILIZE AND INTEREST RATES RISE FURTHER, THERE MAY BE DOWNWARD PRESSURE ON GOLD PRICE.

5. ECONOMY:

A) MAJORITY OF SWISS INDUSTRIAL FIRMS SURVEYED BY UNION BANK OF SWITZ EXPECT HIGHER SALES THIS YEAR THAN IN 1977. SOME 55 PCT ANTICIPATE A RISE (HALF OF THEM EXPECT THIS TO EXCEED 5 PCT) WHILE 32 PCT BELIEVE SALES WILL FALL. SINCE PRODUCTION COSTS WILL RISE FOR MOST COMPANIES AND SALES PRICES DECLINE IN MANY CASES, BANK FORECASTS PROFIT DROP FOR MAJORITY OF COMPANIES. NO REAL BUSINESS STIMULUS THOUGHT LIKELY FOR SWISS INDUSTRY IN 3RD UNCLASSIFIED

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QUARTER.

QUARTER, ALTHOUGH BUSINESS SHOULD BE SLIGHTLY BETTER THAN IN 3RD QUARTER 1977. DIFFICULTIES IN EXPORT MARKETS EXPECTED TO INCREASE.

B) NUMBER OF UNEMPLOYED DECREASED 9.9 PCT IN JUNE TO STAND AT 8,438, OR 0.3 PCT OF LABOR FORCE. LARGEST NUMBERS OF UNEMPLOYED (2,283) AMONG SALES AND OFFICE WORKERS. LARGEST PERCENTAGE UNEMPLOYMENT IN CANTONS BASEL-STADT (0.9 PCT) , GENEVA (0.6) AND TICINO (0.6). TOTAL UNEMPLOYED UP 23.7 PCT FROM JUNE 1977 WHEN UNEMPLOYMENT RATE AT 0.2 PCT.

6. INTL ACCOUNTS:

A) ACCORDING TO FINAL ESTIMATES, BALANCE OF PAYMENTS ON CURRENT ACCOUNT CLOSED 1977 WITH SURPLUS OF SF 8.27 BILLION COMPARED WITH EARLIER ESTIMATES OF SF 8.74 BILLION .

B) SWISS TRADE ACCOUNT IN JUNE SHOWED A DEFICIT OF SF 109.9 MILLION COMPARED WITH SF 109.2 IN MAY AND SF 146.7 IN JUNE 1977. IMPORTS ROSE 8.8 PCT TO SF 3.978 BILLION AND EXPORTS INCREASED 9 PCT TO SF 3.868 BILLION. JAN-JUNE 1978 IMPORTS TOTALLED SF 21.7026 (UP 21.4 PCT FROM 1977) AND EXPORTS SF 20.863 (UP 14.7 PCT). TRADE DEFICIT OF SF 838.4 MILLION IS 31.4 PCT SMALLER THAN IN FIRST 6 MONTHS 1977. CROWLEY

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